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Message Text

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71
ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

DRC-01 /194 W
---------- 017329
P 162150Z NOV 73
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC PRIORITY 6580

C O N F I D E N T I A L SANTIAGO 5660

EO 11652: GDS
TAGS: ECOM, EAID, EFIN, IMF, CI
SUBJ: IMF MISSION IN CHILE

1. SUMMARY: IMF TEAM WHICH ARRIVED SANTIAGO NOV 7 EXPECTS COMPLETE ITS WORK HERE END NOVEMBER AND ISSUE WRITTEN REPORT IN WASHINGTON JAN 15. TEAM IS IMPRESSED WITH SERIOUSNESS CHILEAN EFFORT. EXPECTS NEGOTIATE LETTER OF INTENT WHICH WOULD LEAD TO STAND-BY CREDIT EARLY 1974. FUND MISSION HOPES USG WILL BE MAJOR SOURCE MEDIUM AND LONG-TERM FINANCING TO COVER CHILE'S 1974 BOP GAP. END SUMMARY.

2. FIVE-MEMBER IMF TEAM HEADED BY CARLOS SANSON, WHICH ARRIVED SANTIAGO NOV 7, EXPECTS LEAVE CHILE LATE NOVEMBER OR EARLY DECEMBER. THEY ARE WORKING WITH CHILEAN GROUP CONSISTING OF RAUL SAEZ, MINECON FERNANDO LENIZ, JORGE CAUAS, JOSE LUIS ZAVALA, CARLOS MASAAD AND JUAN VILLARZU. SANSON TOLD EMBOFF THAT FUND MISSION IMPRESSED WITH SERIOUSNESS, COMPETENCE, AND HARD WORK OF CHILEANS INVOLVED. HE SAID TREMENDOUS EFFORT INVOLVED IN PUTTING TOGETHER MEANINGFUL DATA GIVEN CHAOS WHICH PRESENT GOVERNMENT INHERITED AND MANY UNCERTAINTIES ABOUT FUTURE. SANSON BELIEVES LETTER OF INTENT CAN BE NEGOTIATED AD REFERANDUM DURING THIS VISIT
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AND TEAM RECOMMENDATIONS FOR STAND-BY PRESENTED WITH ITS REPORT

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TO IMF DIRECTORS. MISSION REPORT, HE ESTIMATES, WILL NOT BE COMPLTED UNTIL JAN 15. AS A RESULT, PARIS CLUB MEETING PROBABLY CANNOT OCCUR BEFORE LATE JANUARY OR EARLY FEBRUARY.

3. ONE AREA IN WHICH SOME DISAGREEMENT EXISTS BETWEEN FUND TECHNICIANS AND GOC POLICY MAKERS IS REDUCTION OF RATE OF INFLATION. GOC HAS PUBLICLY SET GOAL OF KEEPING 1974 CPI RISE BELOW 200. FUND MISSION IS THINKING MORE IN TERMS OF BELOW 100-150 PERCENT. IN ANY
CASE, TEAM PLANS TO BUILD INTO STAND-BY AGREEMENT STRICT PERFORMANCE GOALS IN ALL MAJOR AREAS SUCH AS FISCAL DEFICIT, NEW EXTERNAL BORROWING, MONEY SUPPLY AND RATE OF INFLATION.

4. PRELIMINARY ESTIMATES BY IMF ARE THAT 1973 BOP DEFICIT WILL BE APPROXIMATELY $700 MILLION. APPROXIMATELY $350 MILLION WILL BE ABSORBED BY NON-PAYMENT TO PARIS CLUB MEMBERS AND OTHER CREDITORS AND REMAINDER BY INCREASED NEGATIVE NET RESERVE (MOSTLY THROUGH SHORT-TERM CREDITS). FUND CALCULATES THAT WITH GENEROUS PARIS CLUB RESCHEDULING IN 1974 AND ASSUMING AVERAGE LME COPPER PRICE 75 CENTS/ POUND, CHILE WILL HAVE UNFINANCED 1974 BOP DEFICIT OF APPROXIMATELY $200 MILLION. SANSON SAID HE HOPED US WOULD BE MAJOR SOURCE MEDIUM AND LONG-TERM FINANCING TO COVER GAP. HE SPECIFICALLY MENTIONED EX-IM BANK CREDIT AND ASKED ABOUT MAJOR US GOVT EFFORT DURING FIRST HALF NEXT YEAR. HE SAID GOC SHOULD NOT TRY TO USE TOO MUCH OF FUND QUOTA QUICKLY (PROBABLY NO MORE THAN TWO TRANCHES) SINCE THE RECOVERY PROGRAM WILL LAST SEVERAL YEARS AND FUND DRAWINGS SHOULD BE HELD IN RESERVE.

5. EMBOFF TOLD SANSON THAT USG HAD ALREADY PROVIDED $52 MILLION IN CCC CREDITS WHICH HAD POSITIVE BOP EFFECT. AS TO FUTURE US ASSISTANCE, EMBOFF SAID THERE WERE SEVERAL MATTERS, SUCH AS DEBT AND COPPER COMPENSATION, ON WHICH PROGRESS WOULD BE REQUIRED BEFORE RETURN TO NORMAL ECONOMIC RELATIONS WOULD BE POSSIBLE. EMBOFF SUGGESTED BILATERAL DISCUSSIONS BEFORE OR AFTER DEC 10-12 CIAP INTER-AGENCY REVIEW MIGHT BE VERY USEFUL.

6. SANSON SAID HE AGREED COMPLETELY AND THOUGHT CHILEANS ALSO THINKING ALONG THESE LINES. AS TO AMOUNT OF PAYMENT
WHICH GOC WOULD HAVE TO MAKE ON 1971-72 US DEBT, HE SAID HE
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EXPECTED TO HEAR SHORTLY FROM DEPUTY ASSISTANT SECRETARY WEINTRAUB AMOUNT INVOLVED SO IMF COULD INCLUDE IN ITS BOP CALCULATIONS.
THOMPSON

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